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July 25, 2002

TN REGULATORY AUTHORITY
DOCKET ROOM

VIA HAND DELIVERY

The Honorable Sara Kyle, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: *Generic Docket Addressing Rural Universal Service*
Docket No. 00-00523

Dear Chairman Kyle:

Enclosed please find the original and fourteen copies of BellSouth's Substitute Version of its Motion for Reconsideration or, in the Alternative, Clarification of the Initial Order of Hearing Officer for the Purpose of Addressing Legal Issues 2 and 3 Identified in the Report and Recommendation of Pre-Hearing Officer Filed on November 8, 2000 for filing.

BellSouth will be filing on August 2, 2002 a brief in support of this motion as directed by the Hearing Officer in this case. Copies of the enclosed have been provided to counsel of record.

Cordially,

Joelle Phillips

JP/jej

Enclosure

cc: The Honorable Ron Jones, Hearing Officer

BEFORE THE TENNESSEE REGULATORY AUTHORITY
Nashville, Tennessee

IN RE: *Generic Docket Addressing Rural Universal Service*
Docket No. 00-00523

SUBSTITUTE VERSION OF
BELLSOUTH TELECOMMUNICATION, INC.'S
MOTION FOR RECONSIDERATION OR, IN THE ALTERNATIVE,
CLARIFICATION OF THE INITIAL ORDER OF HEARING OFFICER
FOR THE PURPOSE OF ADDRESSING
LEGAL ISSUES 2 AND 3 IDENTIFIED IN THE
REPORT AND RECOMMENDATION OF PRE-HEARING OFFICER
FILED ON NOVEMBER 8, 2000

BellSouth Telecommunications, Inc. ("BellSouth") files this Motion and respectfully shows the Tennessee Regulatory Authority ("Authority" or "TRA") as follows:

I. OVERVIEW

On June 28, 2002, the Hearing Officer in the above-referenced docket entered the Initial Order referenced above ("Initial Order") addressing certain legal issues, which were raised in November of 2000. One of the legal issues addressed in the Initial Order, Issue 2, was whether the withdrawal of toll settlement agreements between BellSouth and the rural local exchange carriers should be considered in the Rural Universal Service proceeding.

Toll settlement agreements are contracts by and between BellSouth and rural independent telephone companies, governing payment for the exchange of intraLATA toll traffic. These agreements provide for compensation between BellSouth and these independent companies for the termination of toll traffic. Such arrangements have been in place in Tennessee since well before divestiture of AT&T. These agreements were revisited after divestiture of AT&T, in order to adjust for the changes resulting from divestiture.

Historically, the toll settlement arrangements between BellSouth (and its predecessor) and the independent companies resulted in a near equivalent exchange of charges between these

parties. Stated simply, when these arrangements were originally executed, BellSouth submits that the parties' expectation was one approximating revenue neutrality with neither party being obligated to pay more in total than the other. In light of the competition-driven changes in the telecommunications market, however, necessary reductions of BellSouth's access rates (without corresponding changes in the access rates collected by the Independent companies) have resulted in an economic disparity. Accordingly, under the present structure, rather than the generally expected revenue neutrality, the parties experience significantly different outcomes. The contracts at issue, however, provided protection against such an unintended result by providing that the toll settlement contracts were terminable. In order to address the changed circumstances, BellSouth has sought to renegotiate these contracts in light of the termination rights contained in those contracts.

Such negotiations have not resulted in a solution and the independent companies have sought relief from the TRA, seeking to prevent BellSouth from terminating these arrangements. BellSouth believes that the economic distortion created by these outdated contracts results in an economically inefficient and, in light of the advent of competition, an unsustainable competitive environment. BellSouth believes that it has the legal right and is entitled to terminate those contracts pursuant to their terms and reserves its right to do so. In its December 2000 Order, the Hearing Officer ruled that the concept of toll settlement arrangements (if not the contracts themselves) is within its jurisdiction, to the extent that it is a part of the regulatory obligation to maintain interconnection arrangements with the rural carriers, and has instructed the parties not to unilaterally terminate such agreements without the involvement of the TRA. BellSouth disagrees with this position as it is an unlawful infringement upon, and interferes with, the rights of parties to contract. In any event, however, the Hearing Officer in this docket was careful in

entering such an order to clarify that nothing in that order should discourage the parties from their continued renegotiation of these agreements.

II. CLARIFICATION OF THE CURRENT ORDER

The current order addresses only the legal issue of whether termination of toll settlement arrangements should be considered in the Universal Service docket. As BellSouth has said when it briefed this issue in 2000, to the extent that a rural company takes the position that the termination or alteration of toll settlement agreements reduces the revenues available to support Universal Service, then this position could properly be considered in this proceeding.

The existing order does nothing more than state that the connection between the contribution that the toll settlement arrangements provide to rural carriers and their ability to maintain affordable residential service is an issue appropriately considered in connection with this docket. BellSouth seeks to clarify that nothing in the Order, however, alters the Hearing Officer's prior instruction to the parties to continue negotiating and the presumption that such negotiations would continue. BellSouth agrees that such negotiations should continue. In the event such negotiations prove futile, however, then BellSouth reserves its rights to bring appropriate action at the TRA to terminate such agreements. While understanding the desire of the Independents to continue their current revenue streams in the Rural Universal Service docket, BellSouth cannot continue to suffer the economic loss created by these outdated contracts in this competitive market. These contracts, and the ability to terminate them, are entirely separate and distinct from the issue of universal service; BellSouth's rights under these contracts (including the right to terminate) should not be held in abeyance pending some resolution of the USF docket in the future. Stated simply, the TRA can consider the *effect* of termination or alteration without *postponing* alteration or termination. Postponing BellSouth's ability to terminate or renegotiate

these contracts would not only be unfair, unnecessary, and inconsistent with the Authority's commitment to competition, but also contrary to contract law.

BellSouth further seeks clarification of the statement on page 4 of the Order that "the Tennessee Public Service Commission directed BellSouth Telecommunications, Inc. ("BellSouth") to enter into toll settlement arrangements that were structured in a manner that enable independent companies to maintain their current revenue streams." BellSouth has researched its records of Public Service Commission orders and has found no order directing BellSouth to enter into such arrangements or addressing whether such arrangements should be structured in a manner to enable independent companies to maintain current revenue streams. BellSouth seeks clarification regarding the specific order on which this statement is based. Clearly, to the extent that no such order exists, the Authority should reconsider the portion of the order based on this presumption.

III. CONCLUSION

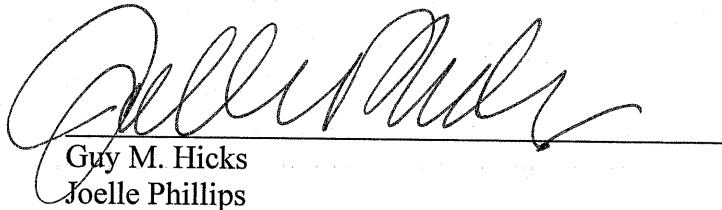
For the foregoing reasons, BellSouth respectfully requests that the Authority reconsider the Initial Order and/or clarify that the negotiation in which the parties were directed to participate should not be hampered or delayed in any fashion by the Initial Order. BellSouth further seeks clarification regarding the Public Service Commission direction referenced in the Order.

As BellSouth has stated previously in this docket, and has indicated to the Independent Companies, the toll settlement contracts currently in place are outdated, pre-competition era contracts, which have never been the subject of TRA supervision. By the terms of those contracts, BellSouth is contractually empowered to terminate such arrangements. While the Tennessee Regulatory Authority may well wish to consider the effect of such termination or

alteration on Universal Service issues, BellSouth respectfully urges that there is no legal authority under which BellSouth can be ordered to continue to operate under agreements which, by their terms, are terminable, indefinitely while the TRA considers issues of Universal Service in a complex docket which is likely to continue for some time.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.

A handwritten signature in black ink, appearing to read "Guy M. Hicks", is written over a horizontal line.

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CERTIFICATE OF SERVICE

I hereby certify that on July 25, 2002, a copy of the foregoing document was served on the parties of record, via the method indicated:

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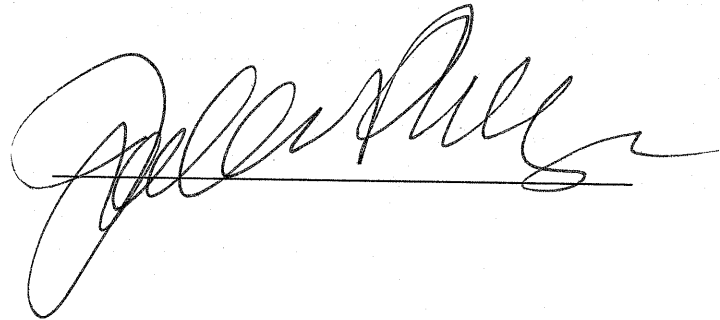
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A large, stylized handwritten signature in black ink, likely belonging to Stephen G. Kraskin, is written over a horizontal line.